

# Mozambique Mining Report Q2 2016

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## Abstracts

BMI View: Mozambique's mining revenue will remain heavily dependent on the country's coal sector, leaving the sector exposed to continued global coal price weakness. Despite this, coal production growth will continue to exceed gold output growth. Furthermore, both sectors will continue to attract interest from overseas investors.

### Latest Developments & Structural Trends

Mozambique's coal production growth will continue to be hampered by weak global coal prices, high domestic start-up costs and inadequate infrastructure. As such, we have revised our coal production forecast on the back of persistent challenges facing the country's coal sector. We forecast the country's coal production to grow from 8.0mnt in 2016 to 9.5mnt by 2020, representing an average growth of 4.2% y-o-y over 2016-2020.

Despite this, growth will be supported by increasing investment coming into the market, which will support long-term production growth. For instance, the Nacala-a-Velha coal terminal, in the country's Nampula province, opened in mid-July 2015, receiving its first transport of coal. This port development will provide an alternative route for the transportation of coal from Tete, and Vale has been particularly forthcoming with investment. The country's long-term potential as a coal exporter will have to be considered against increasing political risk and government intervention in the mining sector. In Q114, Mozambique's government announced its intention to increase taxation on the mining sector and to ensure greater mineral wealth is allocated locally. Although we expect the country to remain amenable to foreign investment and to maintain a broadly attractive business environment, this policy move in the mining sector will be a cause for concern amongst investors.

We forecast Mozambique's gold output to total 0.01mn ounces (moz) by 2020. This represents an average annual growth of 1.1% during 2016-2020. The lack of formal organisation of gold mining activity will ensure the industry remains in the shadow of the country's coal mining sector over the next few years. According to 2014 estimates, the combined worth of Mozambique's gold production in 2014 was just under USD8mn, while the country's coal output was worth an estimated USD428mn.

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